

## **1. PURPOSE**

The purpose of a debt policy is to establish parameters and guidance to make decisions on capital spending and issuance of debt as a means to fund them. In order to minimize debt service expenditures, the Town shall endeavor to take appropriate actions to maintain the highest possible credit rating from Moody's Investors Service, Inc. and Standard & Poor's, Inc., respectively.

The foundation of any well-managed debt program is a comprehensive debt policy. In addition to the general parameters, this policy provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt financing, methods of sale that may be used, and structural features that may be incorporated.

Finally, this debt policy is the recognition of a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. The policy helps to ensure that the Town maintains a sound debt position and that credit quality is protected.

In summary, the main advantages of a formal debt policy are as follows:

- a. Enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making.
- b. Rationalizes the decision-making process.
- c. Identifies objectives for staff to implement.
- d. Demonstrates a commitment to long-term financial planning objectives.
- e. Is regarded positively by the rating agencies in reviewing credit quality.

## **2. OBJECTIVES OF ISSUING DEBT**

- a. The Town will finance capital projects through the issuance of debt for the shortest period practical but in any event not in excess of the anticipated useful life of the financed asset.
- b. The Town will evaluate debt-funding scenarios, including proposed lease-purchase financings, as part of its annual Five-Year Capital Improvement Program process in order to prioritize future financing needs.

## **3. PURPOSES FOR WHICH DEBT MAY BE ISSUED**

- a. The Town during emergency situations may issue debt to provide for emergency infrastructure repair or replacement.
- b. The Town generally will only consider financing major capital improvements with a total cost exceeding \$500,000 through the issuance of long-term debt contingent on a Proposition 2 ½ debt

exclusion approval unless there is some other source of funds to pay the debt service. Such costs may include planning, design and land acquisition costs for such improvements.

- c. The Town generally will only consider issuing debt to finance only those projects that have been included in the Five-Year Capital Improvement Program. It is recognized that certain projects for which debt financing should be considered may arise in such a manner that they can not be incorporated in the Five-Year Capital Improvement Program prior to financing, *e.g.*, the coming to the market of a specific property which the Town desires to acquire for open space purposes. For the purpose of this Policy, lease-purchase financings shall be considered debt and are required to be included in the Five-Year Capital Improvement Program.
- d. The Town will not fund current operating expenditures through the issuance of debt (other than in connection with the issuance of tax anticipation notes).
- e. Any capital projects or acquisitions of \$50,000 or less and with an amortization term of five or fewer years must be funded on a pay-as-you-go basis or, if intended to be funded through the issuance of debt, should be funded with annually issued notes where the principal is paid down each year in equal annual payments.
- f. The town shall comply with Massachusetts General Laws, Chapter 44, §7 & 8 which regulate the purpose for which municipalities may incur debt and the maximum maturity for bonds issued for each purpose.

#### 4. LEGAL LIMITATIONS

The Massachusetts General Laws (C.44 §10) limit the aggregate amount of indebtedness the Town and its coterminous municipalities may have outstanding and the amount of indebtedness outstanding for particular purposes to various multiples of the total annual tax collections of the Town. The Town shall not incur indebtedness through the issuance of debt which shall cause aggregate indebtedness or aggregate indebtedness by purpose, of the Town to exceed the following:

- 5% of the most recent equalization value under G.L. C. 58 § 10C
- 10% of said equalization with the approval of loan by the municipal finance oversight board, which may be given either before or after authorization of indebtedness.

#### 5. TYPES OF DEBT PERMITTED TO BE ISSUED AND CRITERIA FOR ISSUANCE

Types of Debt Obligations:

- a. **General Obligation (G.O.) Bond Anticipation Notes (BAN's)**
- b. **Tax Anticipation Notes (TAN's)** – Not Addressed by this Debt Policy
- c. **Revenue Anticipation Notes (RAN's)** – Not Addressed by this Debt Policy

- d. **Lease Purchase Financing (also known as capital lease financing)**
- e. **General Obligation (G.O.) Bonds**
- f. **Revenue Bonds or Special Assessment Bonds**

Criteria for Issuance:

**a. Short Term Debt**

1. **General Obligation Bond Anticipation Notes:** The Town may choose to issue bond anticipation notes as a source of interim financing when deemed prudent. Bond anticipation notes may also be used as a form of short-term permanent financing (generally up to five years under the current statutes) by renewing the notes over a number of years and reducing the principal amount of notes on renewal. Before issuing such notes, the Treasurer will contact the Town's Financial Advisor for consultation. Bond anticipation notes may be sold at either a competitive or negotiated sale or by private placement when in the best interest of the Town. General Fund debt service target is intended to be between 5% and 8% percent of the General Fund budget, except that General Fund debt service could exceed that target by no more than three percent for no more than three consecutive years. Debt service less than 5% shall be made up by adding to the Capital Stabilization Account.
2. **Tax Anticipation Notes:** Not Addressed by this Debt Policy
3. **Revenue Anticipation Notes:** Not Addressed by this Debt Policy.
4. **Lease Purchase Financing:** Generally, lease purchase financing, in contrast to a true lease, provides for the acquisition of the leased item. Lease purchase financing is appropriate for procuring assets that are too expensive to fund with current receipts in any one year, but with useful lives too short (less than 10 years) to finance with long-term debt.
  - i. Generally, lease purchase financing will be considered for assets that are "like items in the aggregate", that will be needed for only short periods of time, or which are subject to rapid technological obsolescence.
  - ii. Generally, lease purchase financing will not be considered for the purchase or construction of assets with a life expectancy of less than five years or a cost of less than \$20,000.
  - iii. Principal and interest payments on a lease purchase financing shall be included as a separate line-item appropriation in the operating budget of the Town based on the respective purpose of the lease purchase financing.
  - iv. Lease-purchase financings are subject to all the requirements of this policy, including being subject to review as part of the Five-Year Capital Improvement Program.

## b. Long Term Debt

1. **General Obligation (G.O.) Bonds:** General obligation bonds (and general obligation BANs) are backed by the Town's pledge of its full faith and credit to pay interest and principal of the obligations. Unless paid from other sources, the bonds are payable from general property tax revenues. General obligation bonds should be used only to finance or refinance capital improvements and long-term assets, or other costs directly associated with financing of a project which has been determined to be beneficial to a significant proportion of the citizens of the Town and for which repayment sources, if any, have been identified. Bonding should be used only after considering alternative funding sources such as project revenues, Federal and State grants, and special assessments. . General Fund debt service target is intended to be between 5% and 8% percent of the General Fund budget, except that General Fund debt service could exceed that target by no more than three percent for no more than three consecutive years. Debt service less than 5% shall be made up by adding to the Capital Stabilization Account.

2. **Revenue or Special Assessment Bonds:** Not Addressed by this Debt Policy

## 6. RESTRICTION/LIMITATIONS ON DEBT ISSUANCE

- a. **Limitations on Issuance of G.O. Debt:** This Policy prohibits issuing general obligation debt for current operations (other than in connection with the issuance of tax anticipation notes), enterprise activities, enterprise funds, vehicles/rolling stock, leased or lease purchased items. The average life of the combined debt service of all outstanding debt shall not be greater than ten years.
- b. **Derivatives Prohibited:** This Policy prohibits the issuance of any securities which would commonly be understood to be "derivative".

## 7. STRUCTURAL FEATURES OF DEBT

- a. **Overview:** The Town plans long-term and short-term debt issuances to finance the Town's capital program based on cash flow needs, sources of revenue, capital construction periods, budgetary impact, available financing instruments, and market conditions. At the time a bond issue is structured, the mill rate impact will be evaluated so as to minimize overall tax increases with a target annual debt service increase of 3-5% and to maintain level principal payments where practical.
- b. **Debt Repayment:** Generally, borrowings by the Town should be of a duration that does not exceed the economic life of the improvement financed and where feasible should be shorter than the projected economic life. Moreover, to the extent possible, the Town will design the repayment of the debt so as to recapture rapidly its credit capacity for future use. The Town will endeavor to structure new bond issues so as to provide that 50%, at a minimum, of the Town's overall outstanding debt will be retired in the succeeding ten fiscal years.
- c. **Water/Sewer Capital repayment:** The town has historically repaid water and sewer capital borrowings by splitting 50/50 payment requirements between a user surcharge and assessment

through the normal tax rate. This formula should be continued for further borrowings or until the affected enterprise fund is deemed capable to assume the debt payments.

### 8. CREDIT OBJECTIVES

Many analysts use debt ratios to analyze debt levels. However, the Town recognizes overemphasis on debt ratios should be avoided because debt ratios are but one of many factors which influence bond ratings. Commonly used debt ratios of comparable sized municipalities will provide one measure against which the Town can assess its debt burden. Another measure is to compare the Town against ratios developed by rating agencies such as, Moody's Medians. The analysis is not intended to review the Town's total financial position or to make projections of future expenditures other than debt service.

The following debt ratios will be considered when reviewing the Town's capacity to issue debt:

#### a. Debt Burden Indicators

1. Debt as a percentage of Equalization Value.
2. Debt per capita.

#### b. Debt Service Indicators

1. Annual general obligation debt service as a percentage of General Fund operating budget expenditures.
2. Retirement of 50%, at a minimum, of the Town's overall outstanding debt in the succeeding ten fiscal years.

### 9. METHOD OF SALE

- Competitive Sale:** The Town, as a matter of policy, shall seek to issue its debt obligations in a competitive sale unless it is determined that such a sale method will not produce the best results for the Town. In such instances where the Town, in a competitive sale of its debt securities (whether general obligation or non-general obligation debt), deems the bids received as unsatisfactory or does not receive bids, it may enter into negotiation for sale of the securities.
- Negotiated Sale:** When determined appropriate, the Town may determine to sell its debt obligations through a negotiated sale. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific financing program. Selection of the underwriting team shall be made pursuant to selection procedures set forth in this debt policy under "Selection of Consultants and Service Providers" below.
- Private Placement/Limited Public Offering:** When determined appropriate, the Town may elect to sell its debt obligations through a private placement or limited public offering. Selection of a placement agent shall be made pursuant to selection procedures developed by the Financing Team.

- d. Participation in State and Federal Loan Programs:** When determined appropriate, the Town may issue debt obligations in conjunction with loans made pursuant to State and Federal programs, e.g., the State of Massachusetts MWPTA programs for providing funding of eligible drinking water and water quality projects.

### 10. SELECTION OF CONSULTANTS AND SERVICE PROVIDERS

- a. Solicitation:** The Town shall establish a solicitation and selection process for securing professional services that are required to develop and implement the Town's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing the highest quality services at competitive prices.
- b. Financing Team:** The Town employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key players in the Town's financing transactions include its internal financial professionals (the Town Treasurer, Manager and Finance Department staff, among others), its Bond Counsel, and its Financial Advisor. Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required.
- c. Bond Counsel Involvement:** The Bond Counsel will issue an opinion as to the legality and, where applicable, the tax-exempt status of all obligations. The Town also may seek the advice of Bond Counsel on other types of financing and on any other questions involving federal tax law applicable to tax-exempt bonds. Bond Counsel also is responsible for the preparation of the resolution authorizing issuance of obligations, various closing documents to complete their sale and issuance, and performance of other services as defined by contract approved by the Town.
- d. Financial Advisor Involvement:** The Town will seek the advice of the Financial Advisor when appropriate and when required by law. The Financial Advisor will advise on the structuring of obligations to be issued, inform the Town of various options, advise the Town as to how choices will impact the marketability of the Town's obligations, and provide other services as defined by contract approved by the Town. To ensure independence, the Financial Advisor neither will bid on nor underwrite any Town debt issues for which it is serving as Financial Advisor. The Financial Advisor will inform the Treasurer of significant issues that could affect the marketability of its debt or impact its credit rating.

### 11. REFUNDING OF LONG-TERM DEBT

A refunding of long-term debt involves the refinancing of an outstanding bond issue by issuing new bonds. Most refundings are performed to take advantage of current interest rates that are lower than those rates on outstanding bonds. Such refundings are for interest rate savings. The Town may consider a refunding for three primary reasons:

- a.** To reduce interest costs.

- b. To restructure debt service, but generally only if the present value of debt service savings exceeds two (2%) percent of the debt service amount of the refunded bonds.
- c. To eliminate old bond covenants that may have become restrictive.

### 12. DISCLOSURE/ARBITRAGE COMPLIANCE

- a. **Rating Agencies:** Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. Town staff, with assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. A credit rating will be sought from one or more nationally recognized credit reporting agencies as recommended by the Town's financial professionals in conjunction with the Town's financial advisor.
- b. **Arbitrage, Private Activity Use/Payment and Covenant/Representation Compliance:** The Town shall establish a system of record keeping and reporting to ensure compliance with arbitrage limitation, arbitrage rebate, and private activity use and payment limitations applicable to its tax-exempt obligations under the Federal tax code. This effort shall include tracking expenditure of and investment earning on proceeds of bond and note issues and lease purchase transactions, calculating rebate payments in compliance with tax law, and remitting any rebateable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the Town's outstanding debt issues. Additionally, private activity use and payment, general financial reporting and certification requirements embodied in bond covenants, if any, or tax compliance or regulatory agreement covenants or representations in connection with the Town's tax-exempt obligations shall be monitored to ensure compliance with all such covenants and representations.
- c. **Continuing Disclosure:** The Town is committed to continuing disclosure of financial and pertinent credit information relevant to the Town's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure, including requirements regarding annual financial information and material event filings incorporated in the Town's continuing disclosure agreements entered into in connection with the issuance of its debt obligations.

### 13. INTEGRATION WITH CAPITAL PLANNING

The Town prepares a multi-year Capital Improvement Program for consideration and adoption as part of the Town's budget process. Annually, the capital budget identifies revenue sources and expenditures for the current year and the next succeeding four fiscal years as required by the Town By-Laws. As part of the capital project planning process, the financial impact of each proposed project will be evaluated and updated annually. To fund the Capital Improvement Program, the Town will use general revenues (pay-as-you-go), debt financing, State and Federal Aid, special assessments or a combination thereof.

### 14. DEBT AUTHORIZATION (CHARTER REQUIREMENTS)

The Town shall have the power to incur indebtedness subject to the provisions of the Upton Town Charter, as revised from time-to-time.



15. INVESTMENT OF PROCEEDS

The investment of proceeds of debt obligations (including investment earnings) must be in conformance with the Town of Upton Investment Policy.

APPROVED BY:

Board of Selectmen, Chair: Kenneth E. Picard \_\_\_\_\_

Board of Selectmen: James A. Brochu \_\_\_\_\_

Board of Selectmen: Robert J. Fleming \_\_\_\_\_

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